

BASIC MARKET LEVEL PROGRAM

2060168522

AGENDA

- SITUATION ANALYSIS
- MARKET CHARACTERISTICS AND TRIGGER POINTS (PER 1994 BUSINESS PLAN)
- PROBLEM MARKET IDENTIFICATION
- GEOGRAPHIC ACTION PLANS

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SITUATION ANALYSIS

- BASIC SHARE IS BEGINNING TO ERODE AND ITS PERFORMANCE IN GEOGRAPHICALLY IMBALANCE
- GPC EXHIBITS SUBSTANTIAL STRENGTH IN SOME MARKETS AND HAS A MORE GEOGRAPHICALLY BALANCED PERFORMANCE
- IN NUMEROUS MARKETS, PARTICULARLY IN THE WEST, WE HAVE CROSSED KEY BENCHMARKS
- RJR'S PRIVATE LABEL APPROACH CONTINUES TO INCLUDE AGGRESSIVE PRICING
- NATIONALLY, OUR MOST IMPORTANT MEASURES REMAIN VERY POSITIVE
 - MARLBORO SHARE UP
 - DISCOUNT SHARE DOWN

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KEY CHARACTERISTICS OF MARKETS

- 1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP**

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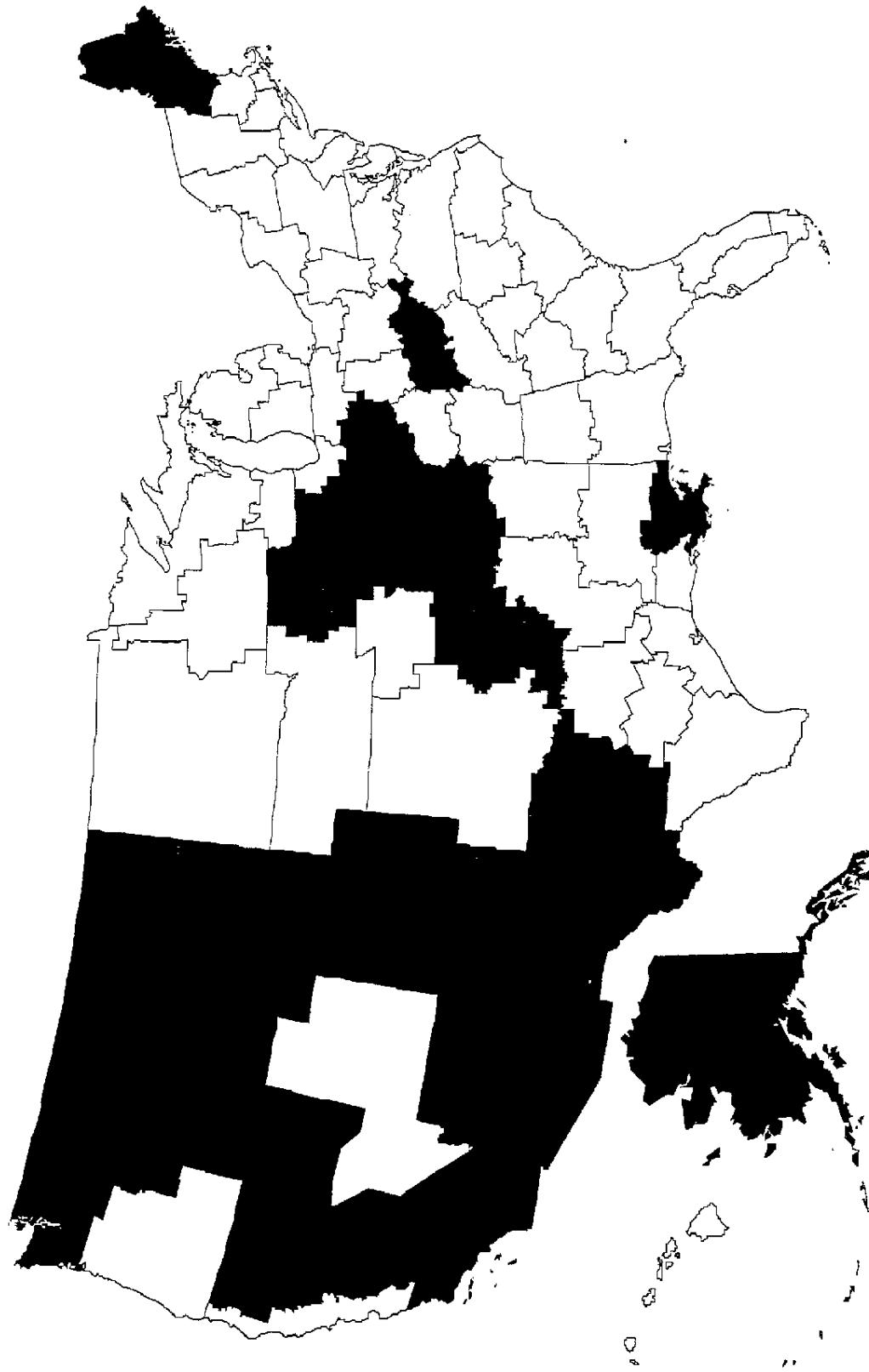
MAP #1

KEY CHARACTERISTICS OF MARKETS

- 1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP**
- 2. GPC HAS GREATER THAN A 7 SOM (national average is 5)**

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MAP #2



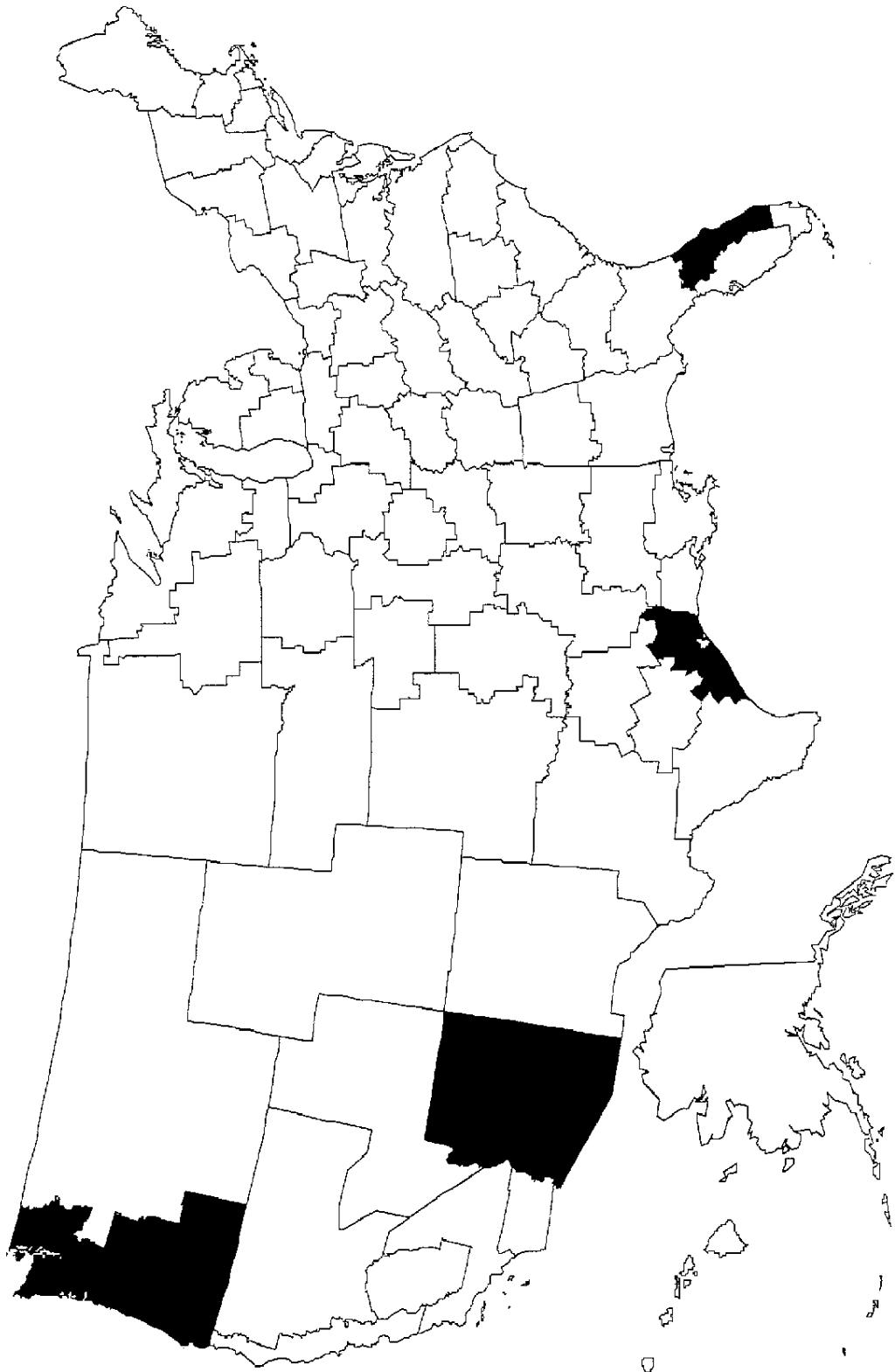
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KEY CHARACTERISTICS OF MARKETS

- 1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP**
- 2. GPC HAS GREATER THAN A 7 SOM (national average is 5)**
- 3. PRIVATE LABEL SHARE > 8.5 AND . . . RJR P/L CDI IS 100+**

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MAP #3



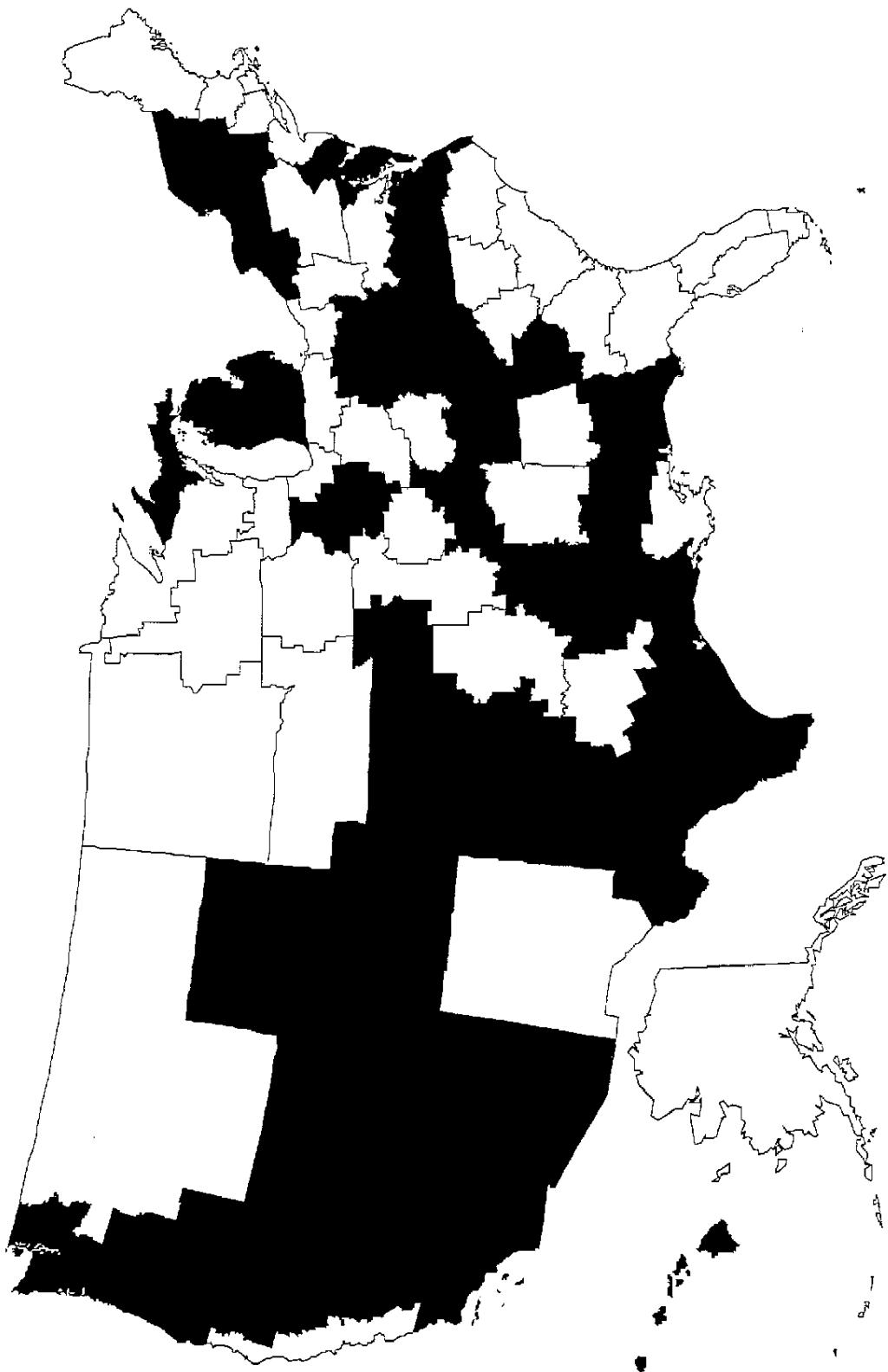
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KEY CHARACTERISTICS OF MARKETS

- 1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP**
- 2. GPC HAS GREATER THAN A 7 SOM (national average is 5)**
- 3. PRIVATE LABEL SHARE > 8.5 AND . . . RJR P/L CDI IS 100+**
- 4. RJR PL/BASIC PRICE GAP EXCEEDS 10¢ PER PACK**

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MAP #4



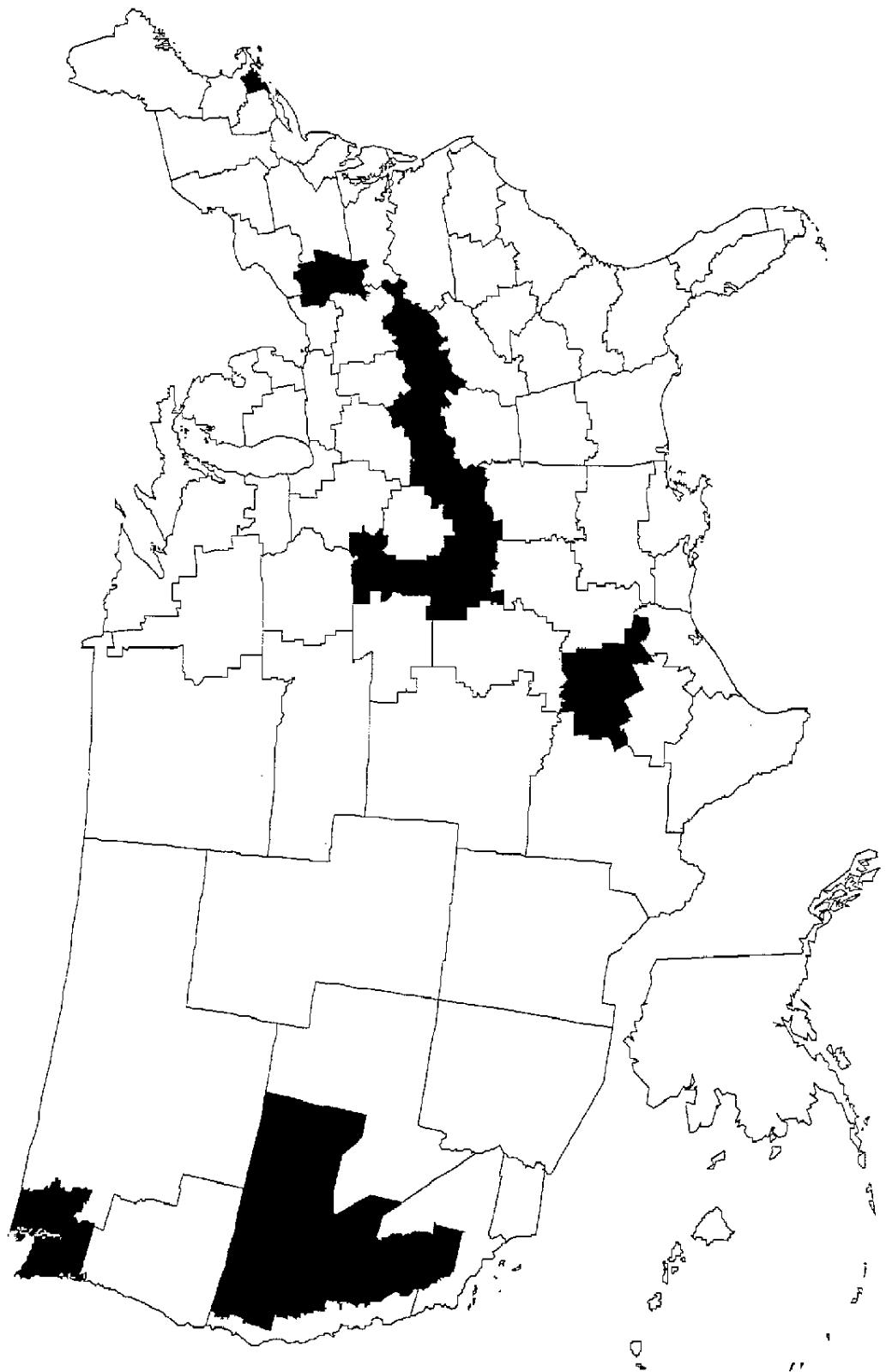
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KEY CHARACTERISTICS OF MARKETS

1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP
2. GPC HAS GREATER THAN A 7 SOM (national average is 5)
3. PRIVATE LABEL SHARE > 8.5 AND . . . RJR P/L CDI IS 100+
4. RJR PL/BASIC PRICE GAP EXCEEDS 10¢ PER PACK
5. BASIC'S SOC WAS 15+ BUT HAS DECLINED TO LESS THAN 15

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MAP #5



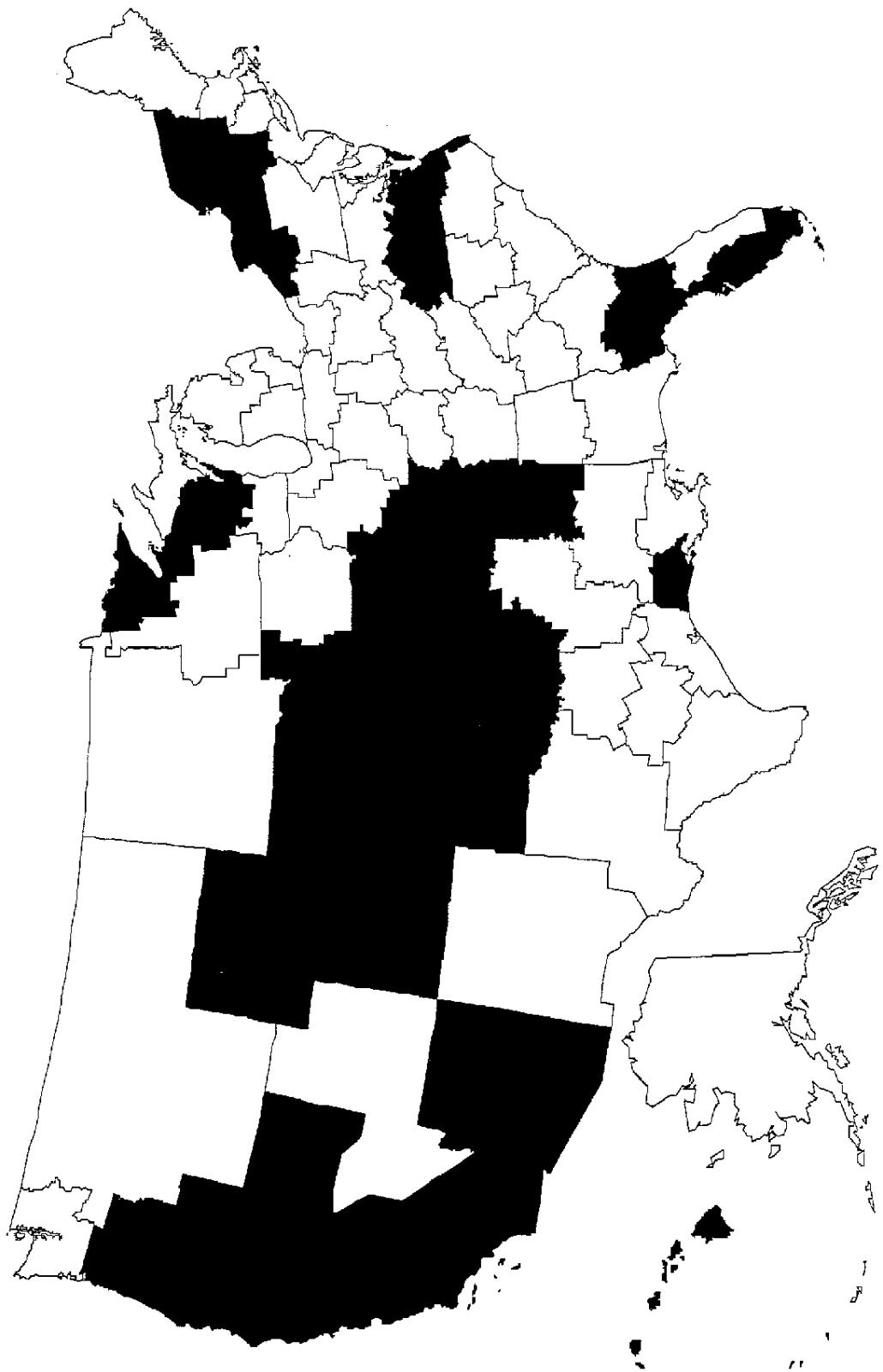
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KEY CHARACTERISTICS OF MARKETS

- 1. MARLBORO'S PACK PRICE GAP WITH LOWEST EXCEEDS 55¢ AND IS BEING DRIVEN BY LOW-END PRICING BEHAVIOR AS OPPOSED TO MARGIN TAKING ON THE TOP**
- 2. GPC HAS GREATER THAN A 7 SOM (national average is 5)**
- 3. PRIVATE LABEL SHARE > 8.5 AND . . . RJR P/L CDI IS 100+**
- 4. RJR PL/BASIC PRICE GAP EXCEEDS 10¢ PER PACK**
- 5. BASIC'S SOC WAS 15+ BUT HAS DECLINED TO LESS THAN 15**
- 6. BASIC'S SOC UNDERDEVELOPED (BELOW 12 SOC) AND IS FLAT OR DECLINING**

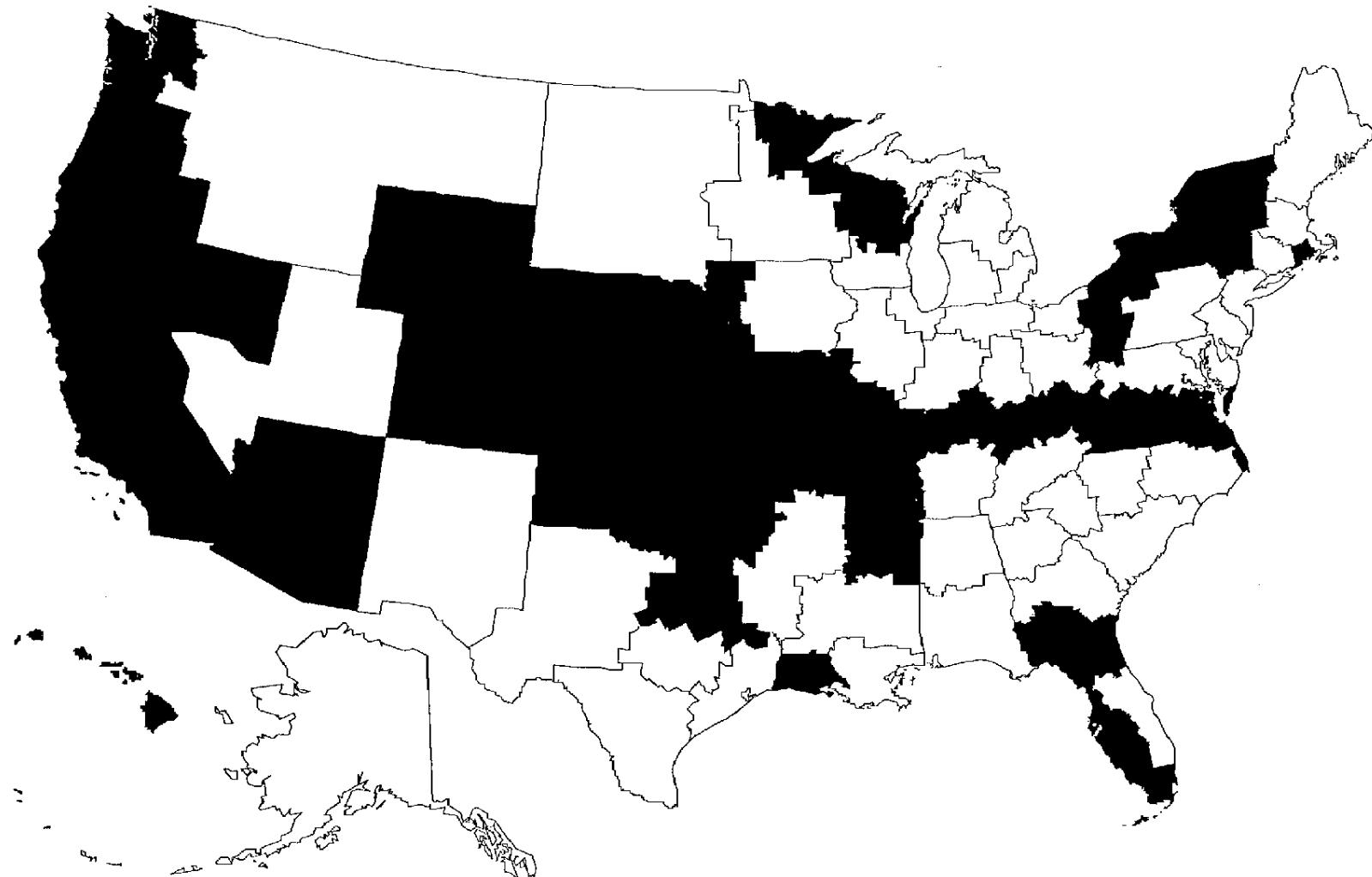
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MAP #6



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TARGET MARKETS



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OBJECTIVES

- CORRECT BASIC'S PROBLEM MARKETS AND ACHIEVE A GEOGRAPHICALLY BALANCED PERFORMANCE
- ATTACK RJR P/L WITHOUT REWARDING RETAIL PARTICIPANTS
- PROTECT MARLBORO
- MINIMIZE IMPACT ON PRICE GAP

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LEVEL ONE RESPONSE

MARKETS/GEOGRAPHIES

SEATTLE, SACRAMENTO, PORTLAND, FRESNO, SAN FRANCISCO, LOS ANGELES, SAN DIEGO, PHOENIX *(Philadelphia/Harrisburg)*

- 11.2% INDUSTRY VOLUME

PROBLEM: WEST COAST IS A DISASTER

PROGRAMS

- **BASIC B1G1F — 2 WEEKS**
- **HIATUS — 2 WEEKS**
- **BASIC B2G1F — 2 WEEKS**
- **HIATUS 2 WEEKS**
- **BUY DOWN TO WITHIN 10¢ FOR 1 MONTH**
- **INCREASE FSI COVERAGE/RETAIL PROMOTION**
- **DOUBLE MARLBORO FLEX**

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LEVEL ONE RESPONSE



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LEVEL TWO RESPONSE

MARKETS/GEOGRAPHIES

**OMAHA, KANSAS CITY, ST. LOUIS, MEMPHIS, TULSA, OKLAHOMA CITY,
LAKE CHARLES, DENVER**

- **9.1% INDUSTRY CONTRIBUTION**

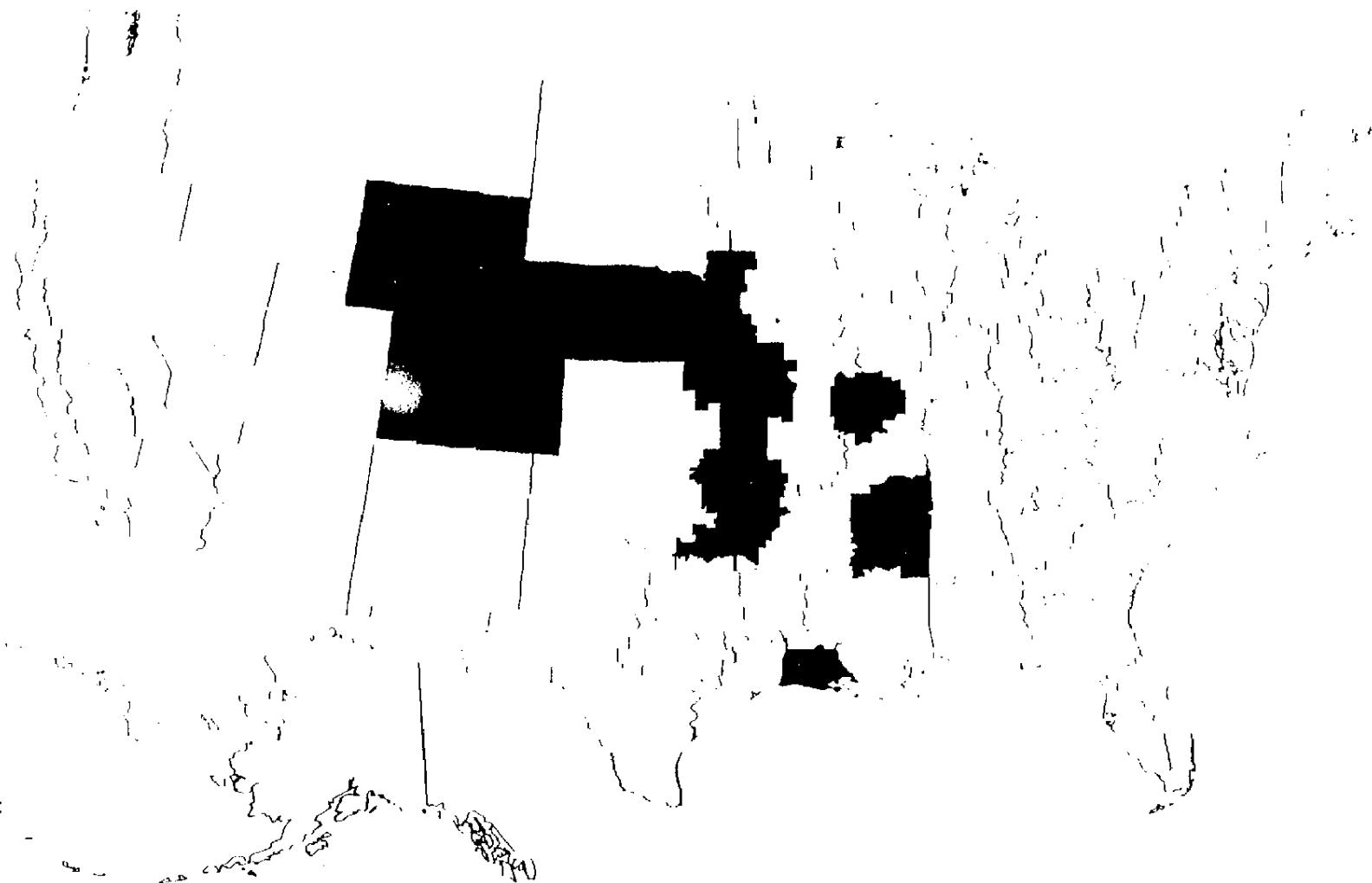
PROBLEM: BASIC PERCEIVED SMALL RELATIVE TO GPC

PROGRAM

- **BUY DOWN TO WITHIN 10¢**
- **FREE STANDING DISPLAY WITH PAYMENT FOR THREE MONTHS**
- **INCENTIVE HEAVY UP**

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LEVEL TWO RESPONSE



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LEVEL THREE RESPONSE

MARKETS/GEOGRAPHIES

PITTSBURGH, LOUISVILLE, LEXINGTON, PADUCAH, SPRINGFIELD,
RICHMOND

- 6.9% INDUSTRY CONTRIBUTION

PROBLEM:

- BASIC EROSION TO RJR PRICING
- GPC SIZE

PROGRAM

- BUY DOWN TO WITHIN A DIME

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LEVEL THREE RESPONSE

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LEVEL FOUR RESPONSE

MARKETS/GEOGRAPHIES

**ALBANY, SYRACUSE, BUFFALO, HARRISBURG, PHILADELPHIA,
JACKSONVILLE, TAMPA, MIAMI, ORLANDO, GREEN BAY, DALLAS**

- **16.1% INDUSTRY CONTRIBUTION**

PROBLEM:

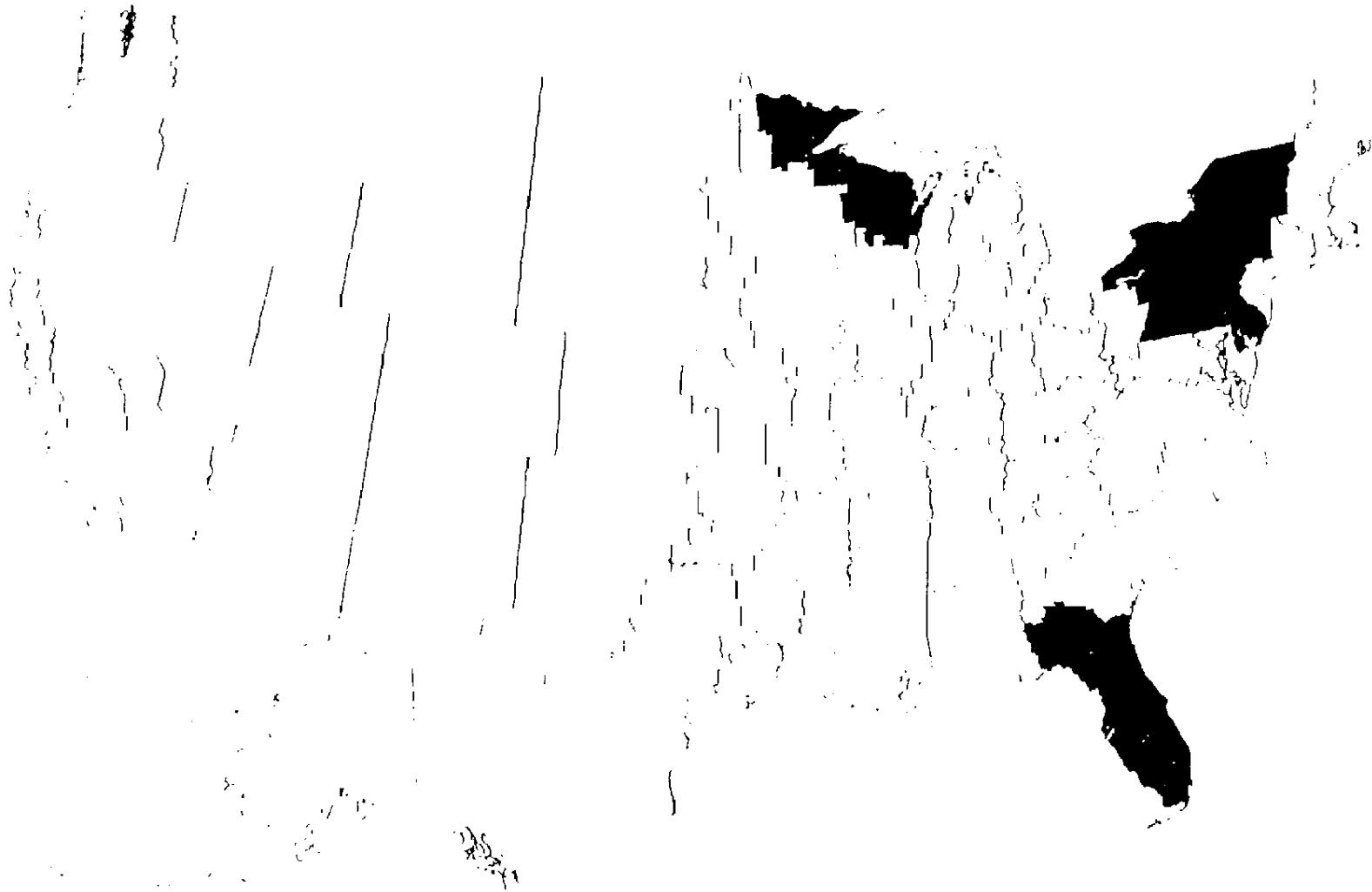
- **BASIC UNDERDEVELOPED**
- **EITHER NO CULPRIT OR PM P/L**

PROGRAM

- **FSI'S (BI-WEEKLY FOR 2 MONTHS)**
- **RETAIL MASTERS DESIGNATED DISPLAY, (#1 DISPLAY POSITIONED IN RETAIL MASTERS)**

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LEVEL FOUR RESPONSE



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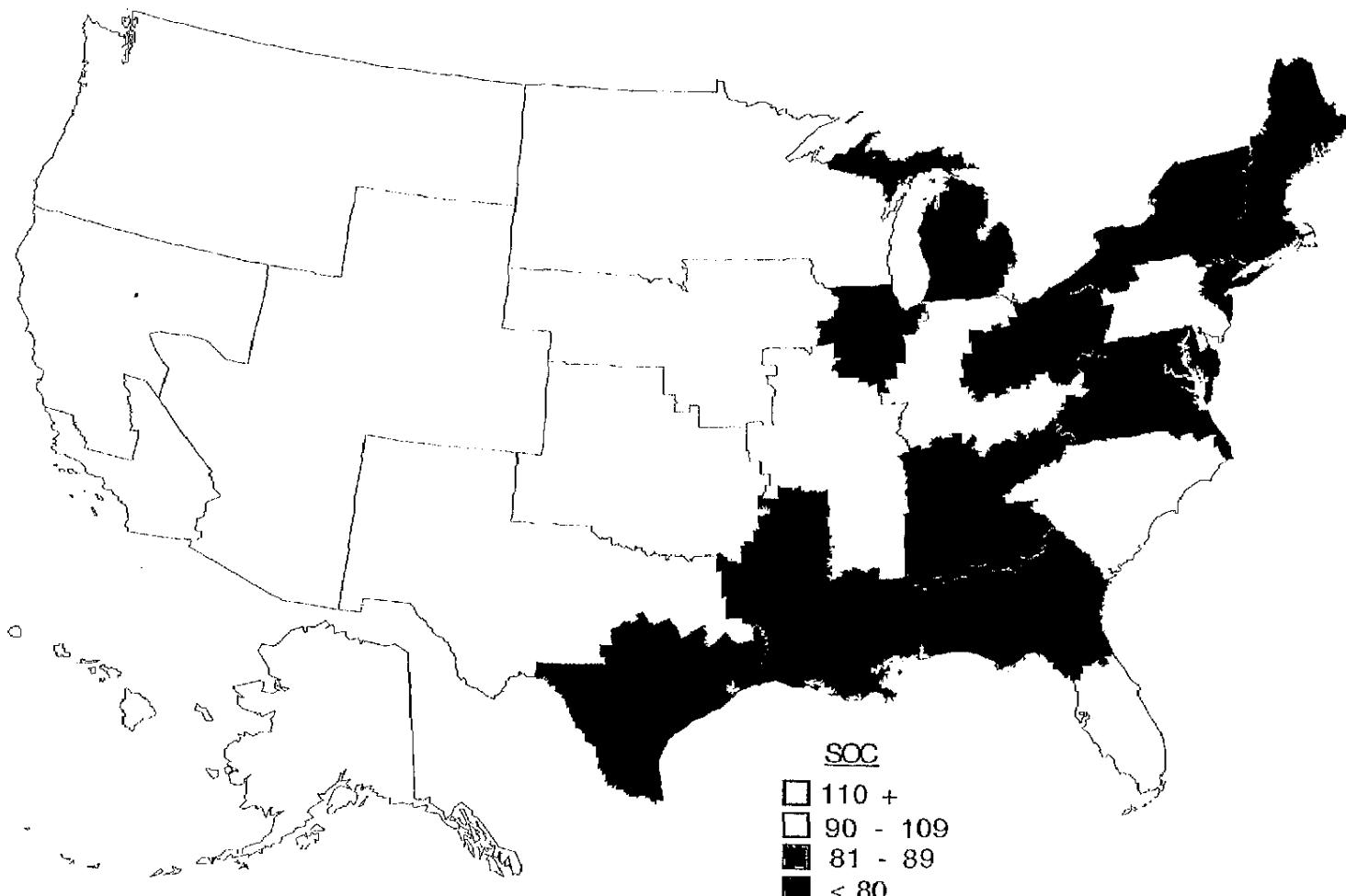
SUMMARY

PROPOSED PLAN WILL COVER:

- 32 MARKETS (OUT OF 76 TOTAL)**
- 43% OF INDUSTRY VOLUME CONTRIBUTION**
- 32% BASIC VOLUME CONTRIBUTION**

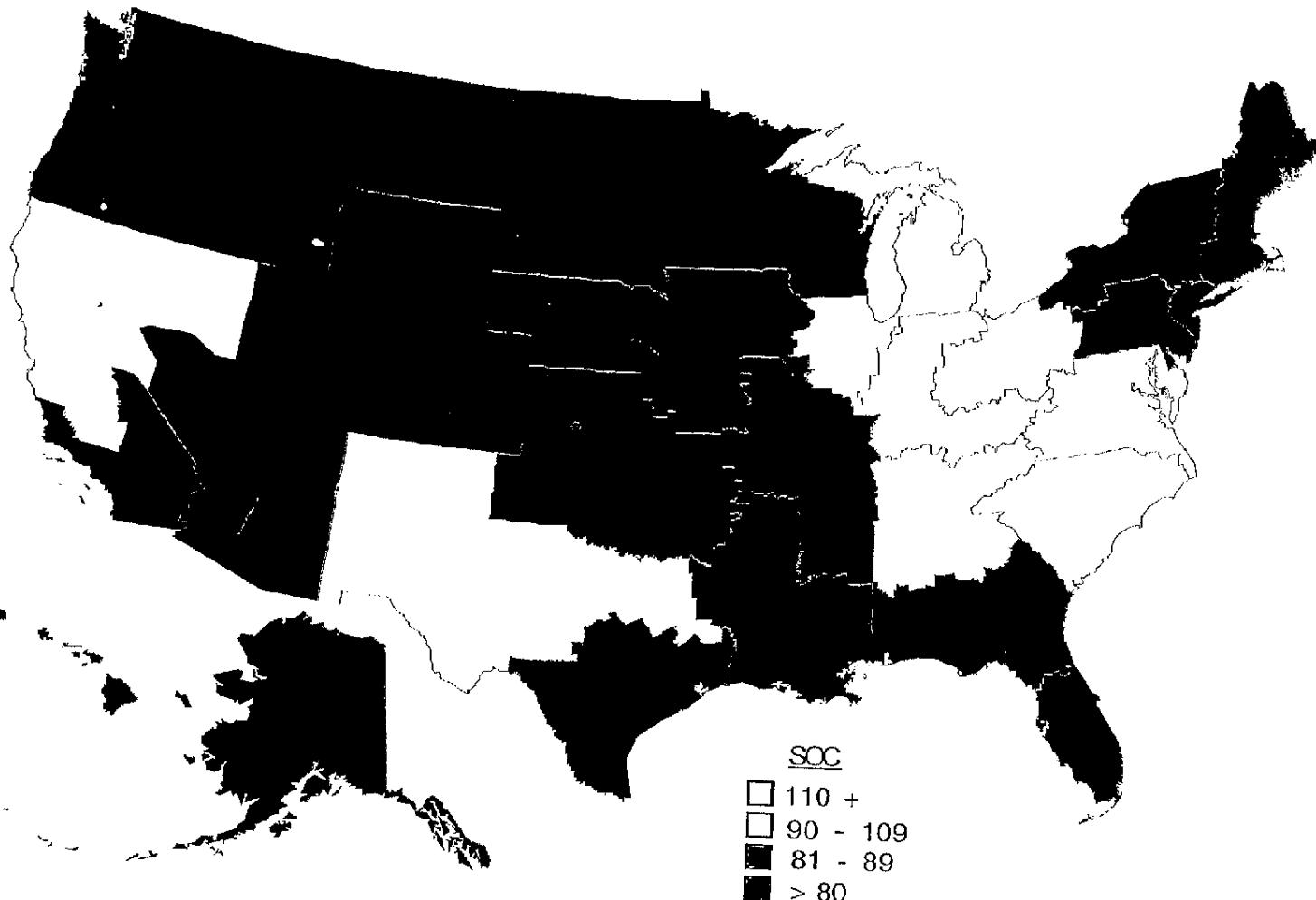
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GPC SHARE OF CATEGORY INDEX (NIELSEN, 1MM)



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BASIC SHARE OF CATEGORY INDEX (NIELSEN, 1MM)



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LEVEL 1 MARKETS

PM RESPONSE JANUARY—FEBRUARY

- BASIC BIG1F 2 WEEKS
- MARLBORO FLEX FUND IS DOUBLED
- BASIC B2G1F 2 WEEKS

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LEVEL 2 MARKETS

PM RESPONSE JANUARY—FEBRUARY

- BUY-DOWN BASIC TO WITHIN 10¢
 - NO CHANGE IN FLEX FUND

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BASIC RESPONSE

OBJECTIVE

- RESPOND WITHOUT REWARDING PL HOLDERS
- PROTECT BASIC AGAINST GPC/MONARCH
- LIMIT RETAIL PRICE COLLAPSE AT REFUND
- PROTECT MARLBORO

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LEVEL 1 MARKETS

<u>MARKET</u>	<u>BASIC SOC</u>	<u>PRICE GAP</u>			
		<u>BASIC</u>	<u>MARLBORO</u>	<u>SITUATION</u>	
HARRISBURG	10/71	9¢	41¢	- LARGE RJR/PL PRESENCE - "JACKS" IN SHEETZ - LOWEST AVG. = \$1.25 - RJR/PL = \$1.25	
PHILADELPHIA	9/64	6¢	40¢	- WAWA HAS ACCEPTED JACKS AT 99¢ - LOWEST AVG. = \$1.34 - RJR/PL = \$1.38	
PHOENIX	6/43	12¢	48¢	- AUSTIN IN CIRCLE K - GPC GENERALLY - LOWEST AVG. = \$1.17 - RJR/PL = \$1.15	
SACRAMENTO	16/114	11¢	41¢	- RJR/PL (14 SOC) - GPC LARGE PRESENCE (23 SOC) - LOWEST AVG. = \$1.50 - RJR/PL = \$1.26	

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LEVEL 1 MARKETS

<u>MARKET</u>	<u>BASIC SOC</u>	<u>PRICE GAP</u>			<u>BASIC MARLBORO SITUATION</u>
LOS ANGELES	9/64	7¢	59¢	- RJR/PL STRONG CATEGORY SHARE (23 SOC) - GPC IS DEVELOPED - WHEN/IF ARCO ACCEPTS - LOWEST AVG. = \$1.41 - RJR/PL = \$1.30	
FRESNO	9/64	10¢	57¢	- RJR/PL (14 SOC) - LOWEST AVG. = \$1.34 - RJR/PL = \$1.26	
CHARLOTTE	21/150	5¢	48¢	- STRONG BASIC MARKET - RJR/PL PRESENCE IS SIGNIFICANT (11 SOC) - LOWEST AVG. = \$1.07 - RJR/PL = \$0.99	
DENVER	7/50	16¢	50¢	- RJR/PL (16 SOC) - LOWEST AVG. = \$1.21 - RJR/PL = \$1.19	

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POTENTIAL LEVEL 1 MARKETS

<u>MARKET</u>	<u>BASIC SOC</u>	<u>PRICE GAP</u>			
		<u>BASIC</u>	<u>MARLBORO</u>	<u>SITUATION</u>	
SALT LAKE	11/79	11¢	52¢	- RJR/PL (9 SOC) - GPC STRENGTH (46 SOC)	
ORLANDO	5/35	8¢	49¢	- LARGE RJR/PL PRESENCE (19 SOC)	
MIDLAND	18/129	11¢	48¢	- RJR/PL (9 SOC)	
OKLAHOMA CTY	8/57	14¢	50¢	- RJR/PL (10 SOC)	
DALLAS/FT WR	22/157	7¢	43¢	- RJR/PL (7 SOC)	

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LEVEL 2 MARKETS

<u>MARKET</u>	<u>BASIC SOC</u>	PRICE GAP			SITUATION
		<u>BASIC</u>	<u>MARLBORO</u>	<u>SITUATION</u>	
BUFFALO	9/64	12¢	43¢	- MAJOR COMPETITOR MONARCH - BASIC UNDERDEVELOPED	
BALTIMORE	5/36	11¢	50¢	- ATC/PL STRENGTH	
SAVANNAH	19/136	14	51	- BASIC STRENGTH - WIDE GAP - BASIC VULNERABLE	
NEW ORLEANS	5/36	15¢	45¢	- GPC (21 SOC)	
LAKE CHARLES	9/64	20¢	53¢	- GPC (12 SOC) - MONARCH (10 SOC)	
OMAHA	5/36	13¢	50¢	- GPC (12 SOC) - MONARCH (10 SOC)	
KANSAS CITY	9/64	18¢	50¢	- GPC (21 SOC)	

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LEVEL 2 MARKETS

<u>MARKET</u>	<u>BASIC SOC</u>	<u>PRICE GAP</u>			<u>SITUATION</u>
		<u>BASIC</u>	<u>MARLBORO</u>	<u></u>	
TULSA	11/79	16¢	45¢	-	GPC (24 SOC)
ALBUQUERQUE	6/43	13¢	47¢	-	GPC (30 SOC)
LOUISVILLE	15/107	15¢	49¢	-	GPC (15 SOC)
LEXINGTON	17/121	15¢	49¢	-	GPC (16 SOC)
SAN FRANCISCO	12/86	12¢	51¢	-	GPC (22 SOC)
SAN DIEGO	6/43	15¢	57¢	-	GPC (46 SOC)

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WA WA
SOUTHERN NEW JERSEY/EASTERN PA

- **BRONSON OUT/JACKS IN**
- **RJR IS PROVIDING 99¢ PRICING**
- **BASIC IS PRICED AT \$1.31**
- **RETAIL MASTERS IS AT RISK**

RECOMMENDATION

- **EQUAL BUYDOWN OFFER TO ALL COMPETING RETAILERS IN
WA WA MARKETS TO A LOWEST POSSIBLE PRICE OF \$1.09**
- **REQUIRE WA WA TO FEATURE DUMP BINS FOR DURATION OF
BUYDOWN IN ORDER TO COMPLY WITH RETAIL MASTERS**

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